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NABE Industry Survey

April 1988

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-March and is being reported in April 1988. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Assessment Survey and the Macroeconomic Forecast Survey.

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Current Highlights

* Demand growth is strong--four times as many companies say unit volume of demand is "rising" as say it is "falling."

* Export business is very strong, with 2/3 of companies that export experiencing gains and none indicating declines.

* More companies are raising real capital expenditures than are reducing them.

* Some inflation pressures are apparent with the number of respondents reporting higher prices, wages, and input prices exceeding those indicating declines.

* Profit margins are continuing to rise.

Unit Demand

Over the last three months, economists responding to the NABE Industrial Survey report healthy demand gains: 53.6% indicate demand is rising, 31.9% say it is unchanged, and 13.0% report a fall. As the data below indicate, large majorities in goods-producing (mainly manufacturing) and in trade/transportation/communication/utilities (TTUC) are witnessing demand gains, while in other services--banks, thrifts, nonbank finance, consulting--the majority show either flat or declining demand.

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Sector	Percent Reporting that Demand* is: Rising	Staying the Same	Falling
Total	53.6%	31.9%	13.0%
Goods-Producing	60.0	32.0	8.0
TTUC	71.9	21.9	6.2
Other Services	37.5	37.5	21.4

* Rows may not sum to 100% due to several respondents who were unable to supply information.

Among all of those who said demand was rising, more said the pace had accelerated (28.4%) than that it had decelerated (17.6%). Among all of those who said demand was falling, more said the rate of decline had decelerated (31.6%) than that it had accelerated (15.8%).

In recent years, the survey had only included the goods-producing and the trade/transportation/utilities/communications (TTUC) sectors. Chart 1 shows the historical record of responses by this group. The March reading of 64.6% with rising demand is well above average (53.2% for the period shown). Chart 2 shows the pattern for goods-producing alone; the 60% rising at present is above average (52.3%), but there have been several instances in the last six years of much larger portions of the respondents reporting gains.

Other Measures of Current Activity - Employment, Inventories, Capital Spending

A variety of other measures also suggest a strengthening of business conditions. For instance, more companies are raising capital expenditures than are reducing them. The gainers clearly outnumber the decliners in goods-producing and in TTUC, while in other services, the fraction raising expenditures is the same as that lowering investment.

Sector	Percent Reporting that Real Capital Spending is: Rising	Staying the Same	Falling
Total	32.5%	50.4%	17.1%
Goods-Producing	34.0	57.4	8.5
TTUC	41.4	41.4	17.2
Other Services	25.5	48.9	25.5

The percentage of companies reporting employment gains (23.3%) was similar to that reporting declines (25.6%), with the remainder reporting unchanged employment. More respondents state inventories are rising (32.2%) as opposed to falling (20.3%). At the same time, somewhat more say the current level of inventories is too high (23.0%) than too low (13.1%), but most believe stock levels are about right (63.9%).

Charts 3-5 show the current figures on capital spending, employment, and inventory accumulation in historical perspective. Once again the historical record was only collected for goods-producing and TTUC.

Chart 1

UNIT DEMAND*

(Percent of Economists Reporting, Quarterly)

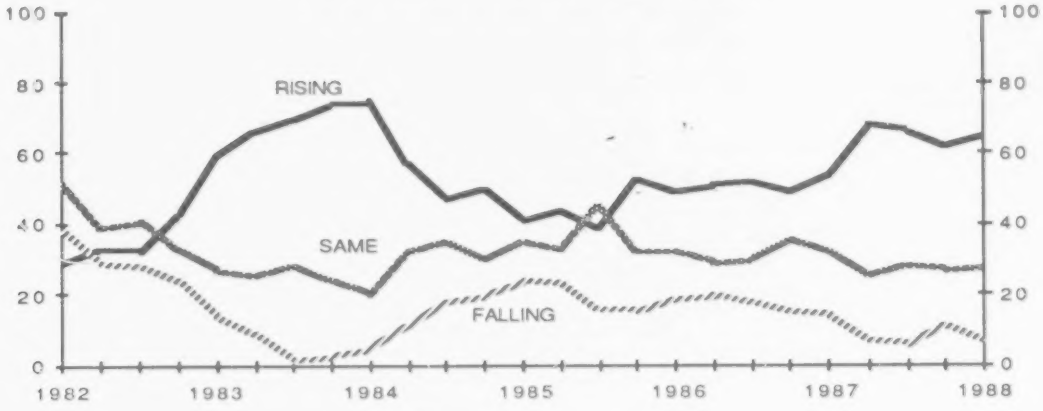


Chart 2

UNIT DEMAND--GOODS-PRODUCING

(Percent of Economists Reporting, Quarterly)

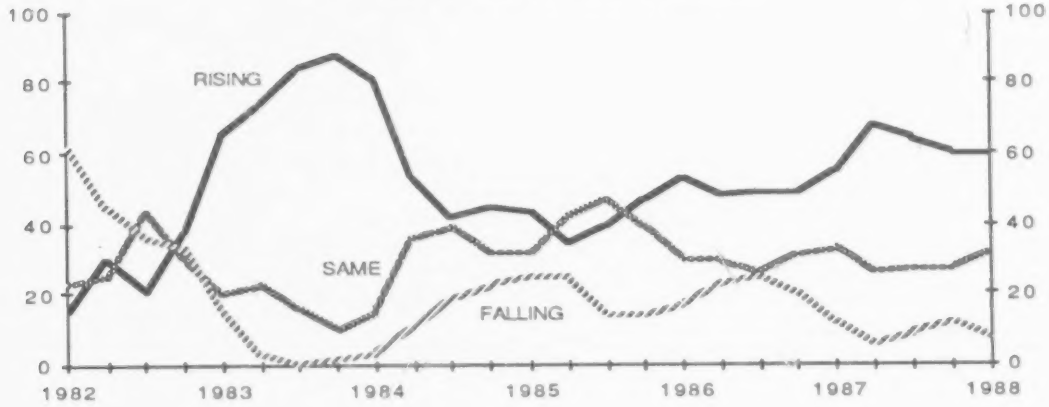
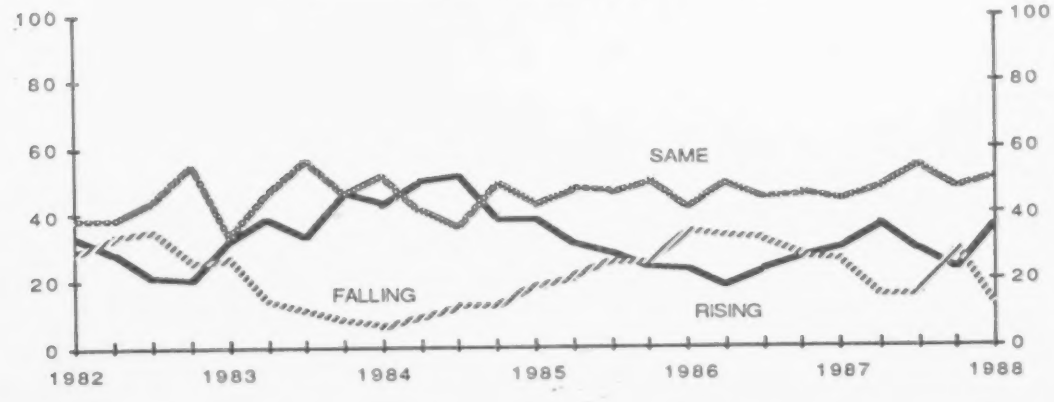


Chart 3

CAPITAL SPENDING*

(Percent of Economists Reporting, Quarterly)



*Includes Goods-Producing, Trade, Transportation, Public Utilities, & Communication sectors.

Chart 4

EMPLOYMENT*

(Percent of Economists Reporting, Quarterly)

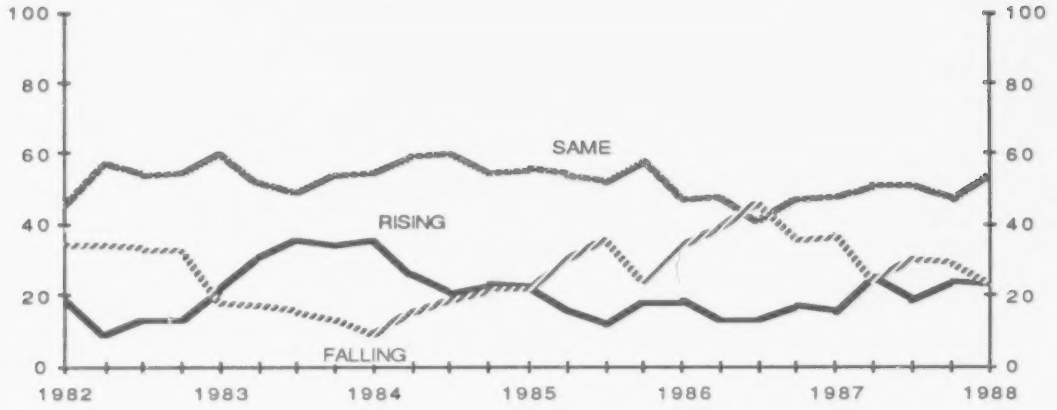


Chart 5

INVENTORIES*

(Percent of Economists Reporting, Quarterly)

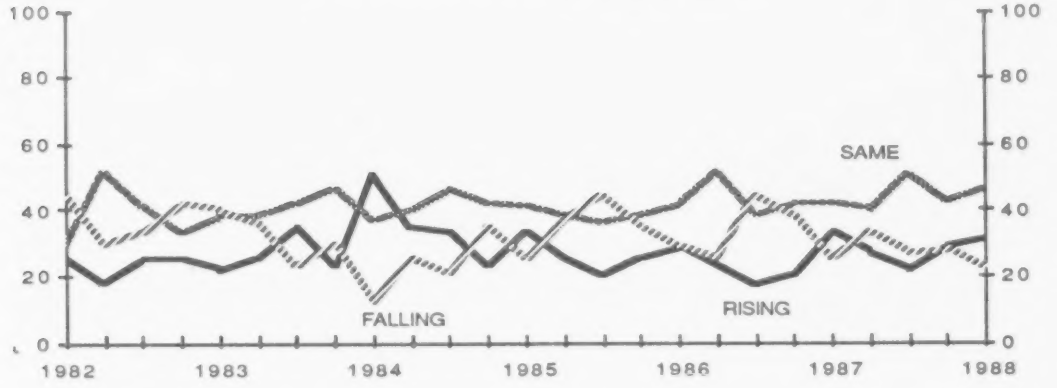
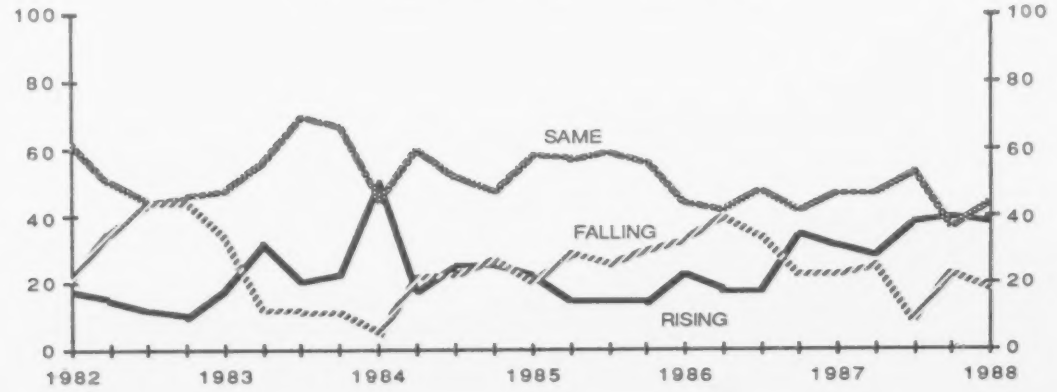


Chart 6

PRICES*

(Percent of Economists Reporting, Quarterly)



*Includes Goods-Producing, Trade, Transportation, Public Utilities, & Communication sectors.

Trade Performance

Most forecasts of the U.S. economy in 1988 show substantial improvement in net exports, which accounts for a large portion of the expected GNP advance. NABE members corroborate this anticipation. Of those companies involved in exporting, 67.3% report rising exports in the last three months, 32.7% indicate they are unchanged, and 0% state exports are declining. In manufacturing alone, 69.2% of the respondents report gains. Among those exporters who have seen advances in the last three months, 68.6% indicate that the pace of growth has accelerated; not even one says the rate of rise has decelerated.

Aside from increased exports, almost all (95.8%) of firms involved in international trade find some other effects of the lower value of the dollar in their business. The following list shows the responses that received the largest number of mentions (with multiple replies permitted):

Other Impacts of the Lower Dollar	Percent of Exporters
Reduced competitive pressure from imports	42.2%
Greater price competitiveness of company in foreign markets	38.0
Increased cost of imported materials	31.0
Greater ability in U.S. to increase selling prices	26.8
Increased overseas earnings	23.9
Company has received purchase offers from foreigners	12.7

When asked what international policies or actions would be most helpful in improving export business, the largest number of respondents (47.9%) listed faster economic growth overseas.

Prices, Costs and Profits

There are some signs of higher inflation in the current picture, although the pressures do not yet appear overwhelming. Members report that prices their companies charge for goods and services are rising over the last three months in 32.8% of the cases, are unchanged in 48.5%, and falling in 18.7%. Among those reporting price increases, more than a third (35.6%) indicate the pace of price advance has accelerated while only 13.3% report deceleration. The historical record of the NABE survey on prices is shown in Chart 6. The current reading--for goods-producing and TTUC--at 37.8% rising is slightly lower than in the prior survey, but the fraction has been on a rising trend over the last two years; also the proportion indicating falling prices is low by the standards of the last six years.

Along with the price pressures there are signs of increased production costs. 40.0% of respondents report rising wages and salaries, with 54.8% unchanged, and 5.2% falling; see Chart 7 for the historical record.

Chart 7

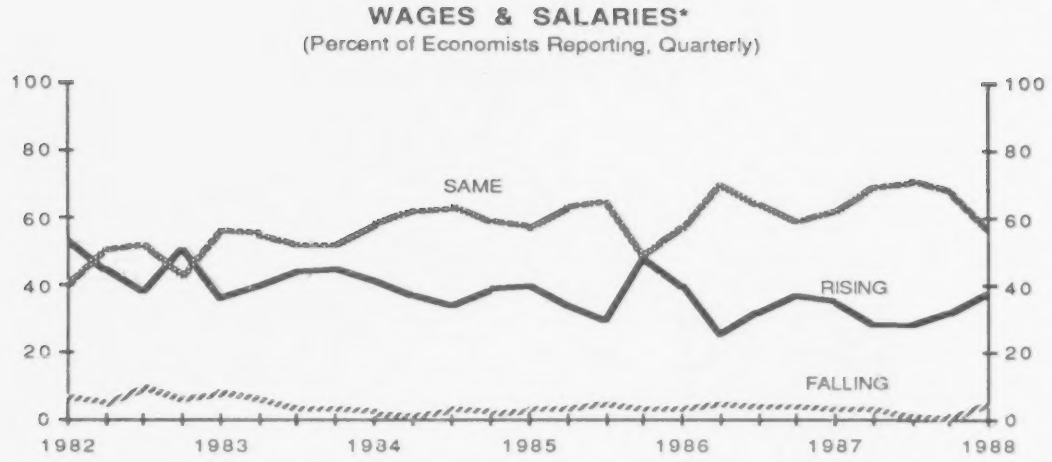
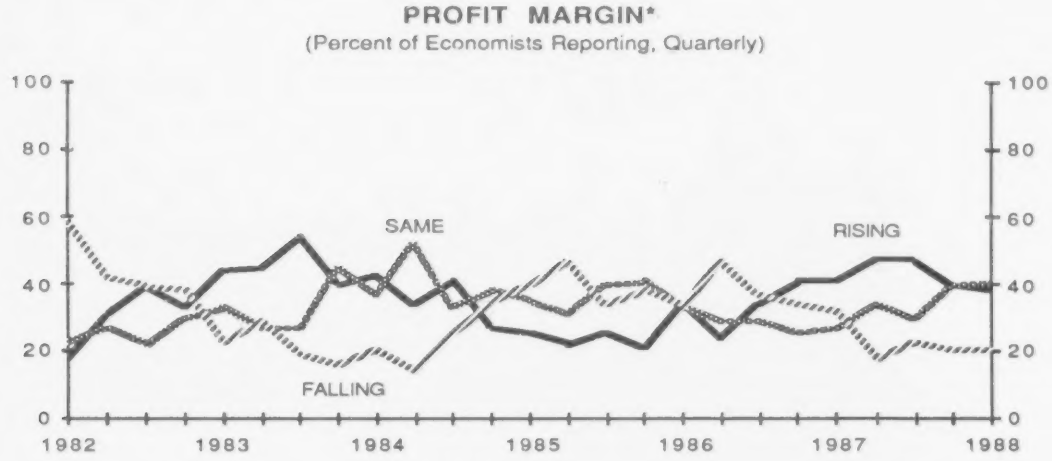


Chart 8



Input prices are gaining as well with 54.2% of respondents noting increases (and half of these stating that the pace of rise has accelerated in the last three months), 34.9% indicating unchanged input prices, and only 10.8% saying they were falling. But shortages of key inputs do not seem to be a major problem with 65.8% indicating no shortages; of the individual items noted, skilled labor was cited most frequently (by 16.2%) as being in short supply.

Profit margins appear to be gaining due to volume and price advances. During the last three months, 34.1% of companies have experienced rising margins, 42.0% find they are about the same, and in 23.8% of the cases there is a decline. Chart 8 shows the pattern.

*Includes Goods-Producing, Trade, Transportation, Public Utilities, & Communication sectors.